McGRAW HILL FINANCIAL

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Dear Senator Portman and Senator Schumer,

Thank you for the opportunity to provide you with our thoughts on tax reform and the current international tax system of the United States. This is an extremely important issue to U.S. companies with multinational operations and we are pleased that you are seeking input from us on this subject.

The United States' worldwide system of international taxation evolved after World War II when U.S. brands were ascendant and beginning to expand around the globe. The world's market place was different then. It was divided by the lines of the Cold War and, until the 1970's, allowed the U.S. to have trade surpluses with our trading partners.

Today, many of those same brands are iconic symbols of American capitalism. They represent opportunities created for countless individuals across the U.S. The global market has matured, foreign labor has increased productivity and efficiency, and competitor nations have altered their tax codes to compete for U.S. jobs, companies, markets, and capital. Today, directing capital that was earned overseas back to the United States is no longer an automatic or even always an economically provident decision for a U.S. company.

Our current tax system makes the U.S. a less favorable climate for increases in investment by U.S. companies. The U.S. needs a tax structure that positions us ahead of our peers and those that someday hope to be our peers in this new era of global exchange. We believe that Congress can create a tax system that provides the revenues necessary to support government operations and, simultaneously, allows our companies, brands, and the spirit of capitalism to support the growth of American companies here and abroad.

First and foremost, we strongly support every effort to collect the taxes that are currently owed to the U.S. Government. Approximately 17% of the taxes owed to the federal government, or roughly $500 billion, are not collected each year. This amount dwarfs the $157 billion in annual corporate tax expenditures and represents enough revenue to cut the corporate tax rate by approximately 5 percentage points. We at McGraw Hill Financial spend a great deal of time and resources to properly comply with tax rules worldwide and we encourage Congress to adopt policies and budgets that crack down on those who do not.

We also believe it would be beneficial to rework the tax code so that it recognizes the realities of the global marketplace. With a global effective tax rate that has ranged from 33.1% to 35.9% in the last three years, McGraw Hill Financial would clearly benefit from a reduction of the statutory U.S. corporate tax rate. Our business model, products and structure do not afford us the use of many tax subsidies given to other American and foreign companies. We do benefit from a limited use of tax expenditures such as the research and experimentation tax credit. However, we do not benefit from the vast array of tax subsidies that are tied to manufacturing and the production of goods. Those types of tax benefits cannot be used by a data, analytics, and intellectual property company in today's dynamic business environment. While manufacturing is an important part of the U.S. economy, increasingly, services, data, and analytics make up a big part of the economy.

We recognize that there are many political and policy reasons why these tax expenditures exist and we respect the role Congress plays in balancing their costs with their benefits. However, companies such as ours, that also provide high quality jobs and important services that benefit the U.S. economy, effectively pay higher taxes that subsidize other American corporations. We believe that the curtailment or wholesale elimination of many corporate tax expenditures to provide for lower overall tax rates would reduce economic distortions and unfairness in the current system. Failure to do so invites a mobile workforce to find equilibrium in other jurisdictions.

As a global company, we do benefit modestly from deferral of incremental U.S. taxation on our overseas profits that, of course, are taxed locally. Currently, our company and its controlled foreign corporations hold roughly $1 billion in cash overseas. While currency fluctuations may incentivize repatriation in sporadic increments, a long term policy would serve companies and the job market much more efficiently. Businesses thrive in an environment with certainty so we believe a long term plan would increase activity in the U.S.

McGraw Hill Financial earns a great deal of its global revenues from the deployment of its intellectual property. While it may be perfectly legal to do so, our company has not yet availed itself of the possible benefits of a foreign low-tax "patent-box." However, it is something we are now considering. As you know, for business and tax purposes, intangible assets such as patents, copyrights and brands can reside in legal entities created in many jurisdictions in the world. Nine European countries; Belgium, France, Hungary, Italy, Luxembourg, Netherlands, Portugal, Spain and the United Kingdom have all come to recognize the uniqueness of intellectual property in the context of global business and taxes and have created special low-tax homes, or "patent-boxes," for them. As a 127 year old firm proud of its uniquely American iconic brands (Standard & Poor's Ratings Services, S&P Capital IQ, S&P Dow Jones Indices, Platts and J.D. Power), McGraw Hill Financial believes it would send a strong message that our country is open for business to incentivize innovation and promote job creation in the United States by creating an American "innovation box."

Some of our innovations currently qualify for the research and experimentation tax credit and we believe that further encouraging U.S. activities toward innovation is a more productive incentive than limiting the benefits only to activities requiring patents. Even if comprehensive tax reform cannot be achieved in the near term, creating an American "innovation box" now would relieve significant market pressure on companies such as ours to retain and invest resources in the U.S. Creating an American "innovation box" now would be a good down payment on comprehensive tax reform and we urge Congress to consider it.

Some believe that deploying resources outside the U.S. is behavior by U.S.-parented companies that should be punished. Publically traded companies have a duty to shareholders and must consider variable options to reduce tax exposure and cost burdens to the company. Creating punitive measures for companies making rational economic decisions will not have the desired effect. For example, a minimum tax on foreign operations would hurt exports because the sales and marketing entities established in the foreign markets to generate exports would be taxed locally <u>and</u> by the United States. The extra layer of tax would discourage export activities altogether and counteract the benefits to U.S. job creation derived from exports.

McGraw Hill Financial stands ready to aid you and your Committee, as you seek to reform the U.S. tax code. A reduction in the U.S. corporate income tax rate coupled with an "innovation box" will be a strong inducement for expansion in America. Please do not hesitate to call on us if we can provide information or our thoughts as you work through the many complexities of international tax policy.

Sincerely,

Peter Scheschuk

Peter Scheschuk
Senior Vice President, Global Taxes